

Legislative Audit Division

State of Montana



Report to the Legislature

December 1997

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1997

Department of Livestock

This report contains five recommendations for improving compliance and management controls, and one disclosure issue relating to Special Revenue Fund balances. The recommendations include:

- ▶ **Properly recording activity on the state's accounting records.**
- ▶ **Board of Livestock travel expenditures.**
- ▶ **Spending non-General Fund money first.**
- ▶ **Compliance with state laws relating to establishing fees in rules and stock inspections.**

**Direct comments/inquiries to:
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Room 135, State Capitol
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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act of 1984, and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1995 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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Office of Budget and Program Planning
State Capitol
Helena MT 59620
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December 1997

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Livestock for fiscal years 1995-96 and 1996-97. The report contains recommendations concerning compliance with state policies and laws including accurately recording activity on the state's accounting records, board travel expenditures, and use of non-General Fund money first. The department's written response to the audit recommendations is included in the back of the report.

We thank the Executive Officer and the department staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

"Signature on File"

Scott A. Seecat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1997

Department of Livestock

Members of the audit staff involved in this audit were Geralyn Hoffman, Scott Hoversland, Susan McEachern, and Lorry Parriman.

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Appointed and Administrative Officials

Board of Livestock

		Term Expires <u>March 1</u>
John Paugh, Chairman	Bozeman	2001
Lee Cornwell, Vice Chairman	Glasgow	2001
Duane Braaten	Kalispell	1999
Leonard Grove	Judith Gap	1999
Jerry Leep	Manhattan	1999
George Hammond	Hardin	2003
Meg Smith	Glendive	2003

Department of Livestock

Laurence Peterson, Executive Officer

Owen James, DVM, Acting Administrator and State Veterinarian
Animal Health Division

George Harris, Administrator
Centralized Services Division

Larry Stackhouse, DVM, Administrator
Diagnostic Laboratory Division

Marc Bridges, Administrator
Inspection and Control Division

Hal Sheets, DVM, Administrator
Meat, Milk and Egg Inspection Division

Department of Livestock

This audit report documents the results of our financial-compliance audit of the Department of Livestock (department) for the two fiscal years ended June 30, 1997.

This report contains five recommendations where the department could improve management controls and enhance compliance with state policies and laws, and one disclosure issue. The first recommendation discusses accounting for stray livestock. The second recommendation relates to board member travel. The third and fourth recommendations address compliance with state law related to use of non-General Fund money first and establishing all fees by rule. The fifth recommendation discusses timely deposit and filing of inspection fees and inspection certificates. The disclosure issue addresses the fund balance in the Special Revenue Fund.

We issued an unqualified opinion on the financial schedules contained in the report. This means the reader may rely on the presented financial information and the supporting data on the Statewide Budgeting and Accounting System.

The department concurred with four of the recommendations and is indeterminate with one recommendation in this report. The department's written response to the audit begins on page B-3.

Report Summary

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

<u>Recommendation #1</u>	We recommend the department record stray livestock activity in accordance with state accounting policy.	8
	<u>Department Resonse</u> : Concur. See page B-3.	
<u>Recommendation #2</u>	We recommend the department develop a policy addressing payments to board members to ensure compliance with state travel policy and law.	10
	<u>Department Response</u> : Concur. See page B-4.	
<u>Recommendation #3</u>	We recommend the department ensure expenditures are applied against appropriated non-General Fund money whenever possible in accordance with state law before using General Fund appropriations.	10
	<u>Department Response</u> : Concur. See page B-4.	
<u>Recommendation #4</u>	We recommend the department establish by rule all authorized fees as required by state law.	11
	<u>Department Response</u> : Indeterminate. See page B-4.	
<u>Recommendation #5</u>	We recommend the department continue to work with state stock inspectors to ensure compliance with state deposit laws and certificate of inspection requirements outlined in state law.	12
	<u>Department Response</u> : Concur. See page B-5.	

Introduction

Introduction

We performed a financial-compliance audit of the Montana Department of Livestock (department) for fiscal years 1995-96 and 1996-97. The objectives of the audit were to determine if the department:

1. Complied with applicable laws and regulations during the audit period.
2. Has administrative and accounting controls effective to ensure resource use was consistent with laws and regulations; resources were safeguarded against waste, loss, and misuse; and reliable information was maintained and fairly disclosed in the financial records.
3. Financial schedules present fairly the department's changes in fund balances and results of operations for the two fiscal years ended June 30, 1997.
4. Implemented prior audit recommendations.

This report contains five recommendations to the department and one disclosure issue. The recommendations address areas where the department can improve its management controls and compliance with laws and regulations. Other areas of concern not having a significant effect on the successful operations of the department are not included in this report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

Background

The department was established to provide for the control and eradication of animal diseases, to prevent the transmission of animal diseases to humans, and to protect livestock from theft and predatory animals. The Board of Livestock (board) serves as the head of the department and is responsible for its administration. The seven board members are appointed by the governor and confirmed by the senate to serve six-year terms. The board appoints an executive officer to serve as the department's chief administrative officer. The executive officer's duties include the day-to-day supervision of the

Introduction

department and ensuring board directives, policies, and rules are carried out. Chapter 333, Laws of 1995, moved the Milk Control Board from the Department of Commerce to the Department of Livestock effective July 1, 1995. The Milk Control Board is administratively attached to the Department of Livestock. The department is organized into five divisions:

Centralized Services Division - provides departmental services in budgeting, accounting, payroll, legal, purchasing, and data processing. This division also includes the Board of Livestock, the Executive Officer and the Milk Control Bureau. The Milk Control Bureau regulates the industry's producer pricing. This is done primarily through the application of an economic pricing formula and compliance auditing of processor activity to assure appropriate producer compensation.

Inspection and Control Division - includes the Inspection and Control program and the Predator Control program. The Inspection and Control program is responsible for livestock theft investigations, brand inspections, recording of livestock brands, and dealer licensing. The Predator Control program controls certain predators that kill or injure domestic livestock.

Animal Health Division - includes the Disease Control program. The Disease Control program is responsible for the control and eradication of animal diseases, and prevention of the transmission of animal diseases to humans.

Diagnostic Laboratory Division - provides laboratory support for the Disease Control program, Milk and Egg program, veterinarians, and livestock producers.

Meat, Milk, and Egg Inspection Division - includes the Milk and Egg program, and the Meat and Poultry Inspection program. The Milk and Egg program ensures that eggs and milk products sold or manufactured in the state are fit for human consumption. The division also oversees the Meat and Poultry Inspection program established by the Montana Meat and Poultry Inspection Act of 1987. The purpose of the program is to provide for a state certified supply of wholesome meat products for retail consumption.

The Livestock Crimestoppers Commission is administratively attached to the department. This commission provides a reward program for information used in detecting livestock related crime.

The department headquarters are located in Helena. The Inspection and Control Division has employees in 15 market centers and 18 districts throughout the state. The Diagnostic Laboratory operates on the Montana State University campus in Bozeman. During the two fiscal years ended June 30, 1997, the department collected approximately \$11.8 million in revenues and had approximately \$12.3 million in expenditures.

During the audit period, the department employed approximately 131 employees. The department also contracts with approximately 625 deputy stock inspectors to perform brand inspections as needed throughout the state. These deputy brand inspectors may charge and keep any inspection fee collected. Without these deputy brand inspectors the department would have to employ additional staff and incur additional expenditures to provide the necessary inspections.

Prior Audit Recommendations

Prior Audit Recommendations

We performed the prior financial-compliance audit of the department for the two fiscal years ended June 30, 1995. The report contained four recommendations of which the department implemented one, partially implemented two, and did not implement one. The recommendation not implemented relates to board member travel and is addressed on page 9 of this report. The recommendations partially implemented relate to timely deposit of inspection fees and inventory controls. The timely deposit of inspection fees is addressed on page 11 of this report. We discussed the inventory prior audit recommendation with management and it is not addressed in this report.

Findings and Recommendations

Accounting for Stray Livestock

The department may take possession of livestock found running at large in the state. After public notice the department may sell the stray livestock and deposit the proceeds in a state account. The proceeds are subject to claim by the owner of the animal for a period of two years. After this two year period the department may transfer the proceeds from the stray livestock account to a state Special Revenue Fund to be used for department operations.

The department's stray livestock account was transferred from the Agency Fund to the Expendable Trust Fund in fiscal year 1995-96 as required by state policy. When the account was transferred several state policy requirements were overlooked. The following accounts should have been established in the Expendable Trust Fund; a fund balance for the estimate of the amount held which would not be reclaimed by owners, revenue for current year collections which would not be reclaimed by anyone, and operating transfers to transfer funds to the Special Revenue Fund. The Property Held in Trust (PHIT) should also be adjusted for amounts transferred and estimated revenue.

The following table outlines the accounts that are misstated in the financial schedules.

Findings and Recommendations

Table 1
Stray Livestock Activity Misstated Accounts

	<u>Amounts Under (Over) Stated</u>		
	<u>Expendable</u>	<u>State Special</u>	<u>Agency</u>
	<u>Trust Fund</u>	<u>Revenue Fund</u>	<u>Fund</u>
<u>Fiscal Year 1995-96</u>			
Beginning PHIT			\$(60,587)
Additions to PHIT			(32,372)
Deletions to PHIT			(92,959)
Beginning Fund Balance	\$42,500		
Transfers-Out	11,019		
Revenues	8,519	\$(11,019)	
Transfers-In		11,019	
Ending Fund Balance	40,000		
<u>Fiscal Year 1996-97</u>			
Beginning Fund Balance	40,000		
Transfers-Out	11,415		
Revenues	3,915		
Transfers-In		11,415	
Ending Fund Balance	32,500		

Source: Compiled by the Legislative Audit Division.

Department personnel said they were aware of the state policy but continued to account for the stray livestock activity as if it were in the Agency Fund. The department should determine the proper accounting entries to correct the Expendable Trust Fund, Agency Fund, and Special Revenue Fund in the current year and then follow state accounting policy in recording stray livestock activity.

Recommendation #1

We recommend the department record stray livestock activity in accordance with state accounting policy.

Findings and Recommendations

Board of Livestock Travel

In our review of the department's compliance with state travel laws we found the department paid \$286 to livestock board members in excess of the amounts allowed by law. In several prior audits we recommended the department continue to assist board members with completion of travel expense vouchers to ensure compliance with state travel policy. The number and types of errors have decreased since the last audit however we still found instances of noncompliance. The following describes these instances:

- Board members were improperly reimbursed \$77 for meals based on travel times recorded on the travel expense vouchers. In three instances lodging reimbursement was overpaid amounting to \$44. These errors were the result of oversight by board members and department personnel.
- A board member was reimbursed for a conference registration fee of \$75 without a receipt. State law requires all miscellaneous expenditures over \$9.99 have an original receipt to be reimbursable.
- State law allows board members \$50 per day whenever doing business representing the department. Department personnel and board members were inconsistent when paying and requesting the \$50 per day. On several occasions we found board members were paid \$25 instead of \$50 per day. Department management said some board members only request \$25 if they work half a day, on other occasions the department decided to only pay board members \$25 for half a days work. In addition, we found two board members were reimbursed \$50 each of which they were not entitled to under state law.

Department management stated board members have been made aware of state policy regarding the reimbursement of travel expenses. The department will seek reimbursement from board members for the overpayments. Management said they will also develop a department policy addressing the payments to ensure consistency. The majority of these overpayments could have been avoided by a more thorough review process for travel reimbursement requests and the travel expense vouchers. The department should continue to assist board members with travel

Findings and Recommendations

expense vouchers and develop a review process to ensure compliance with state travel policy.

Recommendation #2

We recommend the department develop a policy addressing payments to board members to ensure compliance with state travel policy and law.

Non-General Fund Money First

The meat and poultry inspection program received General Fund and Special Revenue Fund appropriation authority in fiscal years 1995-96 and 1996-97. The department spent General Fund appropriations before spending the Special Revenue Fund appropriations of \$6,109 and \$6,284 in fiscal years 1995-96 and 1996-97, respectively. The department collected the revenue and had the cash available in the Special Revenue Fund to use for the meat and poultry program.

State law requires a state agency to apply expenditures against appropriated non-General Fund money whenever possible before using General Fund appropriations. Department personnel said they overlooked this requirement when spending the General Fund appropriations before the Special Revenue Fund authority. In fiscal year 1997-98 the department recorded a prior year adjustment of \$6,284 to the state's accounting records to apply expenditures against non-General Fund money for fiscal year 1996-97.

Recommendation #3

We recommend the department ensure expenditures are applied against appropriated non-General Fund money whenever possible in accordance with state law before using General Fund appropriations.

Findings and Recommendations

Establishing all Fees by Rule

The department establishes fees for the diagnostic lab but does not go through the administrative rule making process in setting or changing those fees. Section 81-1-102(2), MCA, states "The department shall by rule establish all fees that it is authorized to charge . . ." The lab collects approximately \$295,000 in fees each year. Department personnel determined that the lab fees did not have to go through the rule making process since the law relating to lab fees did not specifically mention the rule adoption process. However, the state law reference above applies to all fees established by the department.

Recommendation #4

We recommend the department establish by rule all authorized fees as required by state law.

State Stock Inspectors' Responsibilities

The department's responsibilities include ensuring livestock is inspected prior to transfer across county lines and before or after sale. The state stock inspectors live throughout the state and perform inspections as requested. Inspection fees range from \$.35 to \$10.00 per head. An inspector may perform from one to one hundred inspections a day or may only perform one inspection a week. Therefore, the amount of state money an inspector has in his possession varies significantly. State stock inspectors deposit the money in a local bank and submit the deposit ticket and supporting documentation to the department.

In the prior four audits, we found problems with the timeliness of deposits made by the state stock inspectors. The department has improved the collection and depositing process. However, during this audit we found the state inspection reports and deposits were up to six weeks late. State law requires collections be deposited each day when cash exceeds \$100 or total collections exceed \$500. At a minimum, all moneys collected shall be deposited at least weekly. State law also requires the state stock inspectors to file the certificate of inspection with the department within five days after the inspection was completed. The most current ownership and brand information is not available to the department when the certificates of

Findings and Recommendations

inspection are not filed with the department within five days. Department personnel said they have informed local inspectors of the state depositing laws and certificate of inspection requirements.

Recommendation #5

We recommend the department continue to work with state stock inspectors to ensure compliance with state deposit laws and certificate of inspection requirements outlined in state law.

Disclosure Issue

Special Revenue Fund Balances

The department's Special Revenue Fund balance has slowly decreased over the last six years, but is still higher than needed to meet the department's current needs. The increasing Special Revenue Fund balance issue was a recommendation in the audit for the two fiscal years ended June 30, 1991, and a disclosure issue in the audit for the two fiscal years ended June 30, 1993. At that time department personnel anticipated they would have approximately \$2.4 million in ending fund balance at June 30, 1995. The June 30, 1997 fund balance is \$4.4 million and is about 76 percent of that year's expenditures. This indicates the department could fund a significant portion of its operations through expending the fund balance alone. Total expenditures in the Special Revenue Fund were \$5,609,453 and \$5,782,198 in fiscal years 1995-96 and 1996-97, respectively.

State law requires the department to establish all fees commensurate with costs. The department is also required to maintain records sufficient to support the fees charged for each program area. About 60 percent of the Special Revenue Fund's revenues come from the per capita tax levied on livestock. This fee is annually evaluated and set by the board. The per capita fee is allocated to five of the eight department programs to cover costs of operations. For example, the user fees charged by the diagnostic laboratory only cover about 30 percent of the actual costs of the lab program. This situation would indicate the user of lab services only pays 30 percent of the actual service provided. The per capita fees subsidize 70 percent of the lab program costs. The following table shows trends in revenues, expenditures and fund balances for the last six years.

Table 2
Schedule of Financial Activity in the Special Revenue Fund

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Fund</u> <u>Balance</u>	<u>Revenues</u>	<u>Expenditures</u>
1992	\$6,070,121	\$4,998,785	\$4,318,987
1993	4,993,477	4,934,381	4,634,406
1994	4,757,627	4,805,196	5,040,046
1995	4,739,832	5,094,685	5,113,480
1996	4,348,702	5,218,325	5,609,453
1997	4,416,504	5,850,000	5,782,198

Source: Compiled by the Legislative Audit Division.

Department management said because of cyclical fluctuations in the livestock industry the fund balance is necessary to maintain services or respond to livestock emergencies in years when revenues may not be as plentiful. Department management has determined they should maintain a fund balance equal to 40 percent of its yearly operational budget to ensure adequate cash for operations. Department personnel should develop a long range plan outlining uses of funds available and evaluate methods of reducing the fund balance in the Special Revenue Fund. The current fund balance should be a factor when setting fees commensurate with costs.

We have discussed this issue with department personnel and they will continue to monitor the Special Revenue Fund balance. We present this information for disclosure purposes only and do not make a recommendation at this time.

Independent Auditor's Report & Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Department of Livestock for each of the two fiscal years ended June 30, 1996 and 1997, as shown on pages A-5 through A-12. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the department's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances/property held in trust of the Department of Livestock for the two fiscal years ended June 30, 1996 and 1997, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

"Signature on File"

James Gillett, CPA
Deputy Legislative Auditor

August 29, 1997

DEPARTMENT OF LIVESTOCK
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

	General Fund	Special Revenue Fund	Agency Fund	Expendable Trust Fund
FUND BALANCE: July 1, 1996	\$ (82,784)	\$ 4,348,702	\$ 0	\$ 0
PROPERTY HELD IN TRUST: July 1, 1996			\$ 29,885	
 ADDITIONS				
Budgeted Revenues & Transfers-In	5,726	5,880,090		
Prior Year Revenues & Transfers-In Adjustments		(28,632)		
Cash Transfers In (Out)	423,880	(1,458)		
Additions to Property Held in Trust			3,971,753	
Total Additions	<u>429,606</u>	<u>5,850,000</u>	<u>3,971,753</u>	<u>0</u>
 REDUCTIONS				
Budgeted Expenditures & Transfers-Out	483,789	5,781,291		
Prior Year Expenditures & Transfers-Out Adjustments	(1,097)	907		
Reductions to Property Held in Trust			3,963,507	
Total Reductions	<u>482,692</u>	<u>5,782,198</u>	<u>3,963,507</u>	<u>0</u>
 FUND BALANCE: June 30, 1997	\$ (135,870)	\$ 4,416,504	\$ 0	\$ 0
PROPERTY HELD IN TRUST: June 30, 1997			\$ 38,131	

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LIVESTOCK
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

	General Fund	Special Revenue Fund	Agency Fund	Expendable Trust Fund
FUND BALANCE: July 1, 1995	\$ <u>(71,355)</u>	\$ <u>4,739,832</u>	\$ <u>0</u>	\$ <u>0</u>
PROPERTY HELD IN TRUST: July 1, 1995			\$ <u>98,681</u>	
 ADDITIONS				
Budgeted Revenues & Transfers-In	6,551	5,909,900		
Prior Year Revenues & Transfers-In Adjustments		(4,396)		
Cash Transfers In (Out)	398,276	(972,993)		
Direct Entries to Fund Balance		285,812		
Additions to Property Held in Trust			2,851,073	
Total Additions	<u>404,827</u>	<u>5,218,323</u>	<u>2,851,073</u>	<u>0</u>
 REDUCTIONS				
Budgeted Expenditures & Transfers-Out	409,510	5,603,888		
Prior Year Expenditures & Transfers-Out Adjustments	6,746	5,565		
Reductions to Property Held in Trust			2,919,869	
Total Reductions	<u>416,256</u>	<u>5,609,453</u>	<u>2,919,869</u>	<u>0</u>
 FUND BALANCE: June 30, 1996	\$ <u>(82,784)</u>	\$ <u>4,348,702</u>	\$ <u>0</u>	\$ <u>0</u>
PROPERTY HELD IN TRUST: June 30, 1996			<u>\$ 29,885</u>	

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LIVESTOCK
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Licenses and Permits	\$ 5,726	\$ 380,078	\$ 385,804
Taxes		3,195,432	3,195,432
Charges for Services		1,516,506	1,516,506
Investment Earnings		228,284	228,284
Sale of Documents, Merchandise and Property		1,175	1,175
Grants, Contracts, Donations and Abandonments		110,000	110,000
Other Financing Sources		52,902	52,902
Federal		367,081	367,081
Total Revenues & Transfers-In	<u>5,726</u>	<u>5,851,458</u>	<u>5,857,184</u>
Less: Prior Year Revenues & Transfers-In Adjustments		<u>(28,632)</u>	<u>(28,632)</u>
Actual Budgeted Revenues & Transfers-In	<u>5,726</u>	<u>5,880,090</u>	<u>5,885,816</u>
Estimated Revenues & Transfers-In	<u>7,250</u>	<u>5,399,734</u>	<u>5,406,984</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (1,524)</u>	<u>\$ 480,356</u>	<u>\$ 478,832</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Licenses and Permits	\$ (1,524)	\$ (5,352)	\$ (6,876)
Taxes		209,631	209,631
Charges for Services		234,586	234,586
Investment Earnings		(6,716)	(6,716)
Sale of Documents, Merchandise and Property		(18,825)	(18,825)
Grants, Contracts, Donations and Abandonments		0	0
Other Financing Sources		27,902	27,902
Federal		39,130	39,130
Budgeted Revenues & Transfers-In Over (under) Estimated	<u>\$ (1,524)</u>	<u>\$ 480,356</u>	<u>\$ 478,832</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LIVESTOCK
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Licenses and Permits	\$ 6,551	\$ 381,956	\$ 388,507
Taxes		3,492,372	3,492,372
Charges for Services		1,222,854	1,222,854
Investment Earnings		296,400	296,400
Sale of Documents, Merchandise and Property		62,141	62,141
Grants, Contracts, Donations and Abandonments		110,000	110,000
Other Financing Sources		0	0
Federal		339,781	339,781
Total Revenues & Transfers-In	<u>6,551</u>	<u>5,905,504</u>	<u>5,912,055</u>
Less: Prior Year Revenues & Transfers-In Adjustments		<u>(4,396)</u>	<u>(4,396)</u>
Actual Budgeted Revenues & Transfers-In	<u>6,551</u>	<u>5,909,900</u>	<u>5,916,451</u>
Estimated Revenues & Transfers-In	<u>7,256</u>	<u>5,278,445</u>	<u>5,285,701</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (705)</u>	<u>\$ 631,455</u>	<u>\$ 630,750</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Licenses and Permits	\$ (705)	\$ 6,456	\$ 5,751
Taxes		591,106	591,106
Charges for Services		(55,261)	(55,261)
Investment Earnings		66,200	66,200
Sale of Documents, Merchandise and Property		42,141	42,141
Grants, Contracts, Donations and Abandonments		0	0
Other Financing Sources		(19,000)	(19,000)
Federal		(187)	(187)
Budgeted Revenues & Transfers-In Over (under) Estimated	<u>\$ (705)</u>	<u>\$ 631,455</u>	<u>\$ 630,750</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LIVESTOCK
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT	Centralized Services Program	Diagnostic Laboratory Program	Disease Control Program	Milk & Egg Program	Inspection & Control Program	Predator Control	Meat/Poultry Inspection	Milk Control Bureau	Total
Personal Services									
Salaries	\$ 346,634	\$ 558,938	\$ 335,044	\$ 125,622	\$ 1,581,608	\$ 12,406	\$ 342,778	\$ 91,788	\$ 3,394,818
Hourly Wages								62	62
Other Compensation	8,750						276	1,550	10,576
Employee Benefits	82,895	145,821	80,927	32,036	424,813	2,591	93,233	23,288	885,604
Total	<u>438,279</u>	<u>704,759</u>	<u>415,971</u>	<u>157,658</u>	<u>2,006,421</u>	<u>14,997</u>	<u>436,287</u>	<u>116,688</u>	<u>4,291,060</u>
Operating Expenses									
Other Services	76,697	51,880	138,322	613	41,645	266,297	22,625	6,396	604,475
Supplies & Materials	13,070	148,380	35,618	8,828	88,347	10,133	15,453	2,704	322,533
Communications	30,547	10,393	31,782	5,075	62,717	958	13,786	9,017	164,276
Travel	24,735	7,803	30,528	9,095	41,487	6,394	34,209	11,519	165,770
Rent	54,673	5,144	18,848	164	3,881	1,800	39,232	6,126	129,868
Utilities		32,965	597		397	115			34,073
Repair & Maintenance	7,721	27,125	8,990	4,858	29,640	47,449	7,793	1,642	135,218
Other Expenses	13,987	34,624	16,583	626	7,381		866	3,387	77,454
Total	<u>221,430</u>	<u>318,314</u>	<u>281,268</u>	<u>29,259</u>	<u>275,495</u>	<u>333,146</u>	<u>133,964</u>	<u>40,791</u>	<u>1,633,667</u>
Equipment & Intangible Assets									
Equipment	36,658	63,606	67,955	18,062	125,740		6,734	4,986	323,741
Total	<u>36,658</u>	<u>63,606</u>	<u>67,955</u>	<u>18,062</u>	<u>125,740</u>		<u>6,734</u>	<u>4,986</u>	<u>323,741</u>
Capital Outlay									
Other Improvements		16,372							16,372
Total		<u>16,372</u>							<u>16,372</u>
Benefits & Claims									
From State Sources			50						50
Total			<u>50</u>						<u>50</u>
Total Program Expenditures & Transfers-Out	<u>\$ 696,367</u>	<u>\$ 1,103,051</u>	<u>\$ 765,244</u>	<u>\$ 204,979</u>	<u>\$ 2,407,656</u>	<u>\$ 348,143</u>	<u>\$ 576,985</u>	<u>\$ 162,465</u>	<u>\$ 6,264,890</u>
PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND									
General Fund	\$ 38,224	\$ 140,102			\$ 19,446		\$ 284,920		\$ 482,692
Special Revenue Fund	658,143	962,949	765,244	204,979	2,388,210	348,143	292,065	162,465	5,782,198
Total Program Expenditures & Transfers-Out	<u>696,367</u>	<u>1,103,051</u>	<u>765,244</u>	<u>204,979</u>	<u>2,407,656</u>	<u>348,143</u>	<u>576,985</u>	<u>162,465</u>	<u>6,264,890</u>
Less: Prior Year Expenditures & Transfers-Out Adjustments	<u>(2,023)</u>	<u>(3,157)</u>	<u>334</u>	<u>110</u>	<u>6,301</u>		<u>(810)</u>	<u>(945)</u>	<u>(190)</u>
Actual Budgeted Expenditures & Transfers-Out	698,390	1,106,208	764,910	204,869	2,401,355	348,143	577,795	163,410	6,265,080
Budget Authority	753,510	1,106,743	811,137	211,844	2,406,364	349,741	621,490	245,697	6,506,526
Unspent Budget Authority	<u>\$ 55,120</u>	<u>\$ 535</u>	<u>\$ 46,227</u>	<u>\$ 6,975</u>	<u>\$ 5,009</u>	<u>\$ 1,598</u>	<u>\$ 43,695</u>	<u>\$ 82,287</u>	<u>\$ 241,446</u>
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund	\$ 18,652	\$ 535			\$ 5,009		\$ 18,705		\$ 42,901
Special Revenue Fund	36,468		46,227	6,975		1,598	24,990	82,287	198,545
Unspent Budget Authority	<u>\$ 55,120</u>	<u>\$ 535</u>	<u>\$ 46,227</u>	<u>\$ 6,975</u>	<u>\$ 5,009</u>	<u>\$ 1,598</u>	<u>\$ 43,695</u>	<u>\$ 82,287</u>	<u>\$ 241,446</u>

DEPARTMENT OF LIVESTOCK
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT	Centralized Services Program	Diagnostic Laboratory Program	Disease Control Program	Milk & Egg Program	Inspection & Control Program	Predator Control	Meat/Poultry Inspection	Milk Control Bureau	Total
Personal Services									
Salaries	\$ 358,855	\$ 513,542	\$ 298,069	\$ 108,969	\$ 1,480,749	\$ 11,652	\$ 323,445	\$ 126,859	\$ 3,222,140
Other Compensation	9,599							1,350	10,949
Employee Benefits	82,038	138,235	72,565	30,173	404,933	2,457	87,028	46,699	864,128
Total	<u>450,492</u>	<u>651,777</u>	<u>370,634</u>	<u>139,142</u>	<u>1,885,682</u>	<u>14,109</u>	<u>410,473</u>	<u>174,908</u>	<u>4,097,217</u>
Operating Expenses									
Other Services	109,077	47,529	51,964	428	43,143	298,080	24,280	7,683	582,184
Supplies & Materials	11,094	120,081	31,349	8,000	89,267	371	16,443	2,346	278,951
Communications	33,997	15,620	26,198	4,557	60,046	950	10,287	6,926	158,581
Travel	23,947	4,825	27,260	7,407	50,234	155	28,640	13,573	156,041
Rent	65,249	15,183	8,450	373	4,630	135	37,483	7,732	139,235
Utilities		28,497		16	370				28,883
Repair & Maintenance	7,198	41,245	8,601	5,621	29,479	126,193	8,032	5,330	231,699
Other Expenses	11,815	30,597	6,396	285	15,883		1,186	1,006	67,168
Total	<u>262,377</u>	<u>303,577</u>	<u>160,218</u>	<u>26,687</u>	<u>293,052</u>	<u>425,884</u>	<u>126,351</u>	<u>44,596</u>	<u>1,642,742</u>
Equipment & Intangible Assets									
Equipment	32,940	54,137	47,449	18,692	107,229	155	1,217	846	262,665
Total	<u>32,940</u>	<u>54,137</u>	<u>47,449</u>	<u>18,692</u>	<u>107,229</u>	<u>155</u>	<u>1,217</u>	<u>846</u>	<u>262,665</u>
Capital Outlay									
Other Improvements		16,376							16,376
Total		<u>16,376</u>							<u>16,376</u>
Benefits & Claims									
From State Sources			6,709						6,709
Total			<u>6,709</u>						<u>6,709</u>
Total Program Expenditures & Transfers-Out	\$ <u>745,809</u>	\$ <u>1,025,867</u>	\$ <u>585,010</u>	\$ <u>184,521</u>	\$ <u>2,285,963</u>	\$ <u>440,148</u>	\$ <u>538,041</u>	\$ <u>220,350</u>	\$ <u>6,025,709</u>
PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND									
General Fund	\$ 54,373	\$ 93,873					\$ 268,010		\$ 416,256
Special Revenue Fund	691,436	931,994	585,010	184,521	2,285,963	440,148	270,031	220,350	5,609,453
Total Program Expenditures & Transfers-Out	<u>745,809</u>	<u>1,025,867</u>	<u>585,010</u>	<u>184,521</u>	<u>2,285,963</u>	<u>440,148</u>	<u>538,041</u>	<u>220,350</u>	<u>6,025,709</u>
Less: Prior Year Expenditures & Transfers-Out Adjustments	<u>45</u>	<u>5,757</u>	<u>1,150</u>	<u>795</u>	<u>2,589</u>	<u>38</u>	<u>1,895</u>	<u>42</u>	<u>12,311</u>
Actual Budgeted Expenditures & Transfers-Out	745,764	1,020,110	583,860	183,726	2,283,374	440,110	536,146	220,308	6,013,398
Budget Authority	804,995	1,070,034	654,724	186,160	2,309,338	446,611	546,302	234,982	6,253,146
Unspent Budget Authority	\$ <u>59,231</u>	\$ <u>49,924</u>	\$ <u>70,864</u>	\$ <u>2,434</u>	\$ <u>25,964</u>	\$ <u>6,501</u>	\$ <u>10,156</u>	\$ <u>14,674</u>	\$ <u>239,748</u>
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund	\$ 7,078	\$ 49,924			\$ 20,000				\$ 77,002
Special Revenue Fund	52,153		70,864	2,434	5,964	6,501	10,156	14,674	162,746
Unspent Budget Authority	\$ <u>59,231</u>	\$ <u>49,924</u>	\$ <u>70,864</u>	\$ <u>2,434</u>	\$ <u>25,964</u>	\$ <u>6,501</u>	\$ <u>10,156</u>	\$ <u>14,674</u>	\$ <u>239,748</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1997

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The Department of Livestock uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental, Expendable Trust, and Agency Funds. In applying the modified accrual basis, the department records:

- Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.
- Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

Expenditures may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the Statewide Budgeting and Accounting System (SBAS) without adjustment.

Accounts are organized in funds according to state law. The department uses the following funds:

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Department Special Revenue Funds include Inspection and Control, Livestock Per Capita, Animal Health, Milk Control Bureau, and Meat and Poultry Inspection accounts.

Notes to the Financial Schedules

Fiduciary Funds

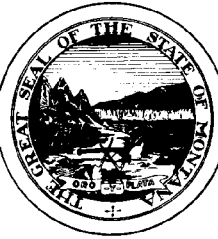
Trust and Agency Funds - to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. Department fiduciary funds include Agency Funds for National Beef Check-Off and Milk Control accounts as well as an Expendable Trust Fund for the Stock Estray account.

2. **General Fund Balance**

The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each department does not have a separate General Fund since its only authority is to pay obligations from the statewide General Fund within their appropriation limits. Each department receives cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets the department has placed in the fund, resulting in negative ending fund General Fund balances for each of the two fiscal years ended June 30, 1997.

Department Response

DEPARTMENT OF LIVESTOCK



MARC RACICOT, GOVERNOR

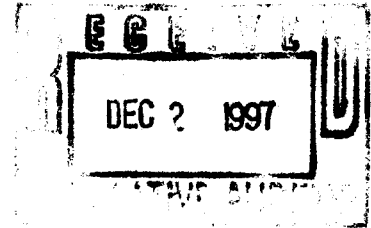
PO BOX 202001

STATE OF MONTANA

BRANDS ENFORCEMENT DIV. 406-444-2045
ANIMAL HEALTH DIV. 406-444-2043
BOARD OF LIVESTOCK - CENTRALIZED SERVICES 406-444-2023
MEAT, MILK & EGG INSPECTION DIV. 406-444-5202

HELENA, MONTANA 59620-2001

December 2, 1997



Scott A. Seacat
Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620-1705

Dear Mr. Seacat:

I submit the following responses to your audit recommendations for the biennium ended 1997 for the Department of Livestock:

Recommendation #1

We recommend the department record stray livestock activity in accordance with state accounting policy.

Response:

The Department concurs with recommendation # 1. The stock estray accounting will be done in accordance with management memo 2-95-1 and GASBS 21. The Department of Livestock administers stock estray funds in accordance with §81-4-605 & 606, MCA. If an owner does not claim the animal, the Department is authorized in 606 as follows:

"The proceeds from the sale of the estrays has remained in the hands of the state treasurer for a period of 2 years, it shall be, by the treasurer, upon request of the department, immediately placed to the credit of the state special revenue fund for the use of the department."

Previously, the Department has held these funds in trust and simply recorded them as revenue after the two-year period when the exact amount of unclaimed revenue is known. Management memo 2-95-1 now requires us to estimate what our stock estray revenues will be and record the estimate as revenue and then adjust this estimate as exact amounts are known after the two-year period. This will require more accounting than our present method. From our perspective, the additional accounting is unnecessary. Nonetheless, we will comply.

Recommendation #2

We recommend the department develop a policy addressing payments to board members to ensure compliance with travel policy and law.

Response:

The Department concurs with recommendation #2 and has already implemented it. The Centralized Service Division has incorporated a policy for the review of board member travel. Board members submit a simplified form and necessary travel receipts to the division. An accounting technician reviews the form for accuracy and initials the document upon completion. The accounting supervisor then reviews the form for accuracy and also initials the document. The Centralized Services Division Administrator reviews the document and signs approval. This policy was implemented in August 1997.

On September 25, 1997, the Board of Livestock considered and adopted a travel policy for the department. Board members will be paid the \$50 per diem when serving in official capacity regardless of the number of hours served each day. This policy applies to both the Board of Livestock and the Milk Control Board.

Recommendation # 3

We recommend the department ensure expenditures are applied against appropriated non-General Fund money whenever possible in accordance with state law before using General Fund appropriations.

Response:

The Department concurs with and has implemented this recommendation. The Department is in the practice of expending special revenue prior to General Funds. The recommendation is the result of an accounting error. The auditor's office is accurate in stating that an appropriate adjustment was made to correct FY 1997. The Meat Inspection Program is a 50/50 federal and General Fund match. Our accountant carefully monitors these expenditures. A small amount of state special revenue received from plant licensing, was inadvertently not spent prior to General Funds. The department has corrected this error and continues to expend other revenues prior to General Funds.

Recommendation # 4

We recommend the department establish by rule all authorized fees as required by state law.

Response:

While not necessarily agreeing with this recommendation, the Department recognizes the position the auditors have taken regarding fees charged by the Diagnostic Lab in Bozeman. At issue are fees charged to veterinarians, producers, and any other users of lab services. For public and animal health purposes, lab fees are not intended to recoup all costs for the operation of the lab. National standards established by the American Association for Veterinarian Laboratory Diagnosticians (AAVLD) have determined that 30% of diagnostic laboratory costs should be recouped from user fees. Higher fees would make costs prohibitive to users. As lab fees increase, users typically do not obtain necessary medical diagnostic tests. Consequently, the public

and the livestock industry would be at risk of potential disease outbreaks. Presently, the fees charged by the lab comprise 30% of the program's total budget. This level of user funding is in line with the accepted national standards.

Recommendation #5

We recommend the department continue to work with state stock inspectors to ensure compliance with state deposit laws and certificate of inspection requirements outlined in state law.

Response:

The Department concurs that state stock inspectors have improved in complying with state deposit laws and certificate of inspection outlined in state law. The Department will continue to work with Department staff to improve timeliness of deposits within workload constraints.

Response to Disclosure:

The Board of Livestock has the constitutional and statutory authority and the responsibility to set fees which are paid by the industry they represent. The Board meets regularly throughout the year and receives detailed analysis of the fund and every operational budget within the department. The Board meetings are open to the public and the agenda noticed in advance. The Board determines the fund level which is appropriate for the Department. In the past, the Board made the managerial decision that at a minimum, the fund balance should not fall below 40% of the present fiscal year's operating budget.

The Board is fiscally conservative and reduces fees charged as the fund balance exceeds what the Board deems necessary to operate the Department. As the auditor's office has pointed out, our special revenue fund balance has been reduced from \$6,070,121 in Fiscal Year 1992 to \$4,416,504 in Fiscal Year 1997. This is a 27.24% reduction in the five-year period.

Neither the Legislature nor the Board of Livestock has arbitrarily determined a fund level which should be maintained by the Department. The long range plan of the Board is to maintain a fund balance to assure that essential departmental services are provided to the livestock industry even during difficult economic conditions.

This disclosure specifically identified the diagnostic lab fees as an example of insufficient fees being charged commensurate with the cost of the operations. It was pointed out that these lab fees only recoup 30% of the costs with the remainder being provided by other revenues, predominately the per capita fees.

It is important to explain that lab fees are not intended to recoup all costs for the operation of the Diagnostic Lab. National standards established by the American Association for Veterinarian Laboratory Diagnosticians (AAVLD) have determined that 30% of diagnostic laboratory costs should be recouped from fees charged. To charge higher fees would make costs prohibitive to users. As costs become prohibitive, users will not obtain necessary medical diagnostic tests. Consequently, the livestock industry and the public are at risk of disease outbreaks.

A better way to finance the operations of the lab is to establish reasonable fees to lab users and to allow the industry producers as a whole to fund the balance. To do otherwise, would indeed create health risks. For example, the Diagnostic Lab provides analysis for rabies and other animal diseases which can be transmitted to humans. There is no other public health lab in the state that can provide such services. Such a lab would be very costly and would most likely require additional General Fund monies.

I appreciate the opportunity to respond to your audit report. We found your staff to be professional and positive in completing their work.

Sincerely,

A handwritten signature in black ink, appearing to read 'Laurence Petersen', with a long horizontal flourish extending to the right.

Laurence Petersen, Executive Officer
To the Board of Livestock

file:\audrsp97.ghh